

Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 02870 142316Z

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INFO AMCONSUL WINNIPEG VIA POUCH

C O N F I D E N T I A L OTTAWA 2870

E.O. 11652: GDS

TAGS: EMIN, CA

SUBJ: POTASH DISCUSSIONS WITH SASKATCHEWAN OFFICIALS

REF: SECSTATE 168157

1. MET WITH PREMIER BLAKENEY, ATTORNEY GENERAL ROMANOW, AND MINISTER OF STATE IN CHARGE OF POTASH AFFAIRS COWLEY JULY 13. CONSUL GENERAL HUTSON PRESENT EXCEPT FOR BLAKENEY MEETING AND WILL REPORT DISCUSSION DETAILS SEPARATELY.

2. MY PITCH FOLLOWED CLOSELY FIRST-CLASS TALKING POINTS CONTAINED REFTEL. BOTH IN PRIVATE AND IN PUBLIC I STRESSED THAT US HAS MAJOR INTEREST AT STAKE IN POTASH ISSUE AND PRECEDENTS STEMMING FROM IT, BUT IS NOT WEDDED TO STATUS QUO ANTE AND WILL COOPERATE WITH OTTAWA AND REGINA IN FINDING A SOLUTION ALL SIDES CAN SUPPORT.

3. BLAKENEY AND HIS LIEUTENANTS DO NOT APPEAR TO HAVE VERY CONFIDENT EXPECTATIONS AS TO HOW THE POTASH ISSUE WILL PLAY OUT. BLAKENEY HOPES THAT DUVAL SETTLEMENT WHICH HE EXPECTS (BUT IS STILL NOT ENTIRELY SURE) TO REACH SOON WILL SET THE TONE AND CONVINCE FOREIGN INTERESTS THAT SASKATCHEWAN WILL PLAY FAIR ON VALUATIONS. HE ASKED REPEATEDLY FOR OUR APPRECIATION OF THE DUVAL SETTLEMENT; I SAID WE HAD NONE, WERE CONCERNED ABOUT
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 OTTAWA 02870 142316Z

THE VALUATION PRINCIPLES AND PRECEDENTS IN SASKATCHEWAN

LAY 1, BUT WOULD LOOK CAREFULLY AND OBJECTIVELY AT THE DUVAL DATA ONCE IT IS AVAILABLE TO US. ATTORNEY GENERAL ROMANOW UNDERTOOK TO GET US THE FIGURES ONCE THE DEAL IS CLOSED. AT THE SAME TIME, BLAKENEY IS FACING DOMESTIC CRITICISM FOR HAVING PAID TOO MUCH FOR DUVAL WHEN POTASH PRICES ARE LOW AND EXPECTED TO REMAIN LOW. BLAKENEY SAID THAT HE WAS MILDLY ENCOURAGED BY THE WILLINGNESS OF TWO OTHER COMPANIES SYLVITE AND ALWINSAL TO HAVE THEIR ASSETS VALUED, BUT REFUSED TO PREDICT (AS DID HE ASSOCIATES) WHETHER NEGOTIATIONS WOULD DEVELOP.

4. EVEN IF BLAKENEY IS ABLE TO NEGOTIATE PURCHASE OF THREE COMPANIES THEY WILL TOTAL ONLY ONE-THIRD OF POTASH CAPACITY, WELL SHORT OF THE ONE-HALF GOAL BLAKENEY SET IN HIS THRONE SPEECH. HE SPEAKS SOMEWHAT AIRILY ABOUT A MAJOR NEW OR JOINT INVESTMENT AS A MEANS TO COMPLETE THE PROGRAM IF NO ONE ELSE IS WILLING TO SELL, BUT THIS IS IMPLAUSIBLE GIVEN THE CURRENT SOFT POTASH MARKET AND SASKATCHEWAN'S VIGILANT PUBLIC OPINION. BLAKENEY DID NOT DISPUTE MY REMARK THAT HE MIGHT WELL HAVE TO CHOOSE BETWEEN EXPROPRIATION AND ABANDONING THE HALF-THE-INDUSTRY GOAL AT SOME FUTURE POINT.

5. IN PRIVATE, BLAKENEY WAS REALISTIC ABOUT THE CONSEQUENCES OF HIS ACTIONS. HE ADMITTED THAT HALF THE INDUSTRY WOULD ENABLE HIM TO EXERCISE PRICE LEADERSHIP AND TO "RECOUP THE ECONOMIC RENTS". AT THE SAME TIME HE MAINTAINED THAT ANY EFFORT TO GOUGE SASKATCHEWAN'S MAIN CUSTOMERS (I.E. CHARGE MORE THAN THE COST OF ALTERNATIVE SOURCES) WOULD BE DAMAGING TO ITS LONG-TERM INTERESTS. ON THE IMPACT ON THE INVESTMENT CLIMATE IN CANADA HE WAS QUITE CANDID: FOREIGN INVESTORS WOULD BE WRONG TO IMAGINE THAT GROUND RULES WILL NOT BE CHANGED IN MANY INSTANCES AFTER THEY COME INTO CANADA, AND SHOULD PROCEED ON THAT BASIS. POTASH IS ONLY ONE CASE OF MANY.

6. WITH REGARD TO THE USE OF SASKATCHEWAN MARKET POWER, ROMANOW AND COWLEY PICKED UP A COMMENT IN ONE OF MY EARLIER SPEECHES AND ASKED WHETHER WE WERE INTERESTED

CONFIDENTIAL

PAGE 03 OTTAWA 02870 142316Z

IN SOME FORM OF ASSURANCE AS TO PRICE AND QUANTITY AVAILABILITY OF SASKATCHEWAN POTASH. I SAID WE HAD NOT GIVEN THAT TOO MUCH THOUGHT, WERE MORE INTERESTED IN DIVERSIFICATION, BUT THAT I WOULD ASK YOU TO CONSIDER IT FOR POSSIBLE RESPONSE THROUGH OTTAWA.

7. WITH REGARD TO EXPROPRIATION FINANCING, I MADE THE REMARK THAT US POLICY IS TO KEEP OPEN CAPITAL MARKETS.

SHOULD, HOWEVER, THERE BE SETTLEMENTS WHICH IN THEMSELVES OR IN THEIR PRECEDENTS WERE CLEARLY DAMAGING TO US INTERESTS, THE QUESTION OF WHETHER FREE ACCESS TO CAPITAL MARKETS COULD BE MAINTAINED WOULD INEVITABLY BE POSED. I NOTED THAT THIS QUESTION HAD NOT BEEN POSED SO FAR.

8. LITTLE WAS SAID ABOUT THE ANTI-TRUST SUIT AGAINST US COMPANIES. BLAKENEY NOTED (AS EXPECTED) THAT IT VALIDATED HIS ARGUMENT ON SASKATCHEWAN'S NEED TO ASSURE THAT THE INDUSTRY RESPONDS FULLY TO LOCAL CONTROL. WHEN I REMARKED THAT REALLY ISN'T THE CASE BECAUSE ONLY US COMPANIES ARE CITED AS CONSPIRATORS OR CO-CONSPIRATORS, HE AGREED BUT SAID IT MAKES A GOOD TALKING POINT.

9. COMMENT. TO JUDGE FROM THIS EXCHANGE I THINK OUR CURRENT POSTURE ON POTASH IS JUST ABOUT RIGHT. WE SHOULD KEEP UP THE PUBLIC PRESSURE ON SASKATCHEWAN: IT WAS QUITE OBVIOUS FROM MY TALKS THAT THERE HAS BEEN ENOUGH OF IT TO GET SASKATCHEWAN OFFICIALS' ATTENTION AND TO GET THEM THINKING ABOUT HOW THEY CAN DEAL WITH AMERICAN CONCERNS ABOUT SECURITY OF SUPPLY AND ASSET VALUATION. THE COMBINATION OF THAT PRESSURE WITH THE SOFTNESS IN THE POTASH MARKET IS PUTTING BLAKENEY UNDER STRESS.

10. AT THE SAME TIME WE SHOULD CONTINUE TO EXPLORE THOSE ACTIONS WE MIGHT WISH TO CONSIDER (NOTABLY SOME LIMITATION OF SASKATCHEWAN ACCESS TO US CAPITAL MARKETS IN THE EVENT OF UNSATISFACTORY SETTLEMENT OF TAKEOVERS OF US PROPERTY). IN THIS CONNECTION IT IS WORTH REMEMBERING THAT TO MEET HIS GOAL BLAKENEY WILL HAVE TO TAKE OVER ANOTHER US PROPERTY OTHER THAN DUVAL. ANALYSIS OF THE DUVAL SETTLEMENT, WHEN THE DATA IS AVAILABLE, MAY GIVE US AN ADDITIONAL OPPORTUNITY TO KEEP THE HEAT ON. CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OTTAWA 02870 142316Z

11. I AM NOT SURE THAT WE SHOULD MAKE ANY MOVE AT THIS POINT TO DEFUSE THE SECURITY OF SUPPLY ISSUE, BUT SOME ANALYTIC WORK ON THE (DIFFICULT) TASK OF DESIGNING A GOVERNMENT-TO-GOVERNMENT SUPPLY ASSURANCE IS IN ORDER.

12. BLAKENEY INVITED ME AND I ACCEPTED TO COME OUT AGAIN IN THE FALL FOR A LONGER TRIP AND ANOTHER REVIEW OF THE POTASH ISSUE.

13. DISCUSSIONS EXTREMELY CORDIAL THROUGHOUT. ENDERS

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